

AR82

Shore Gold Inc.

Vision
Planning
Growth

2005 ANNUAL REPORT

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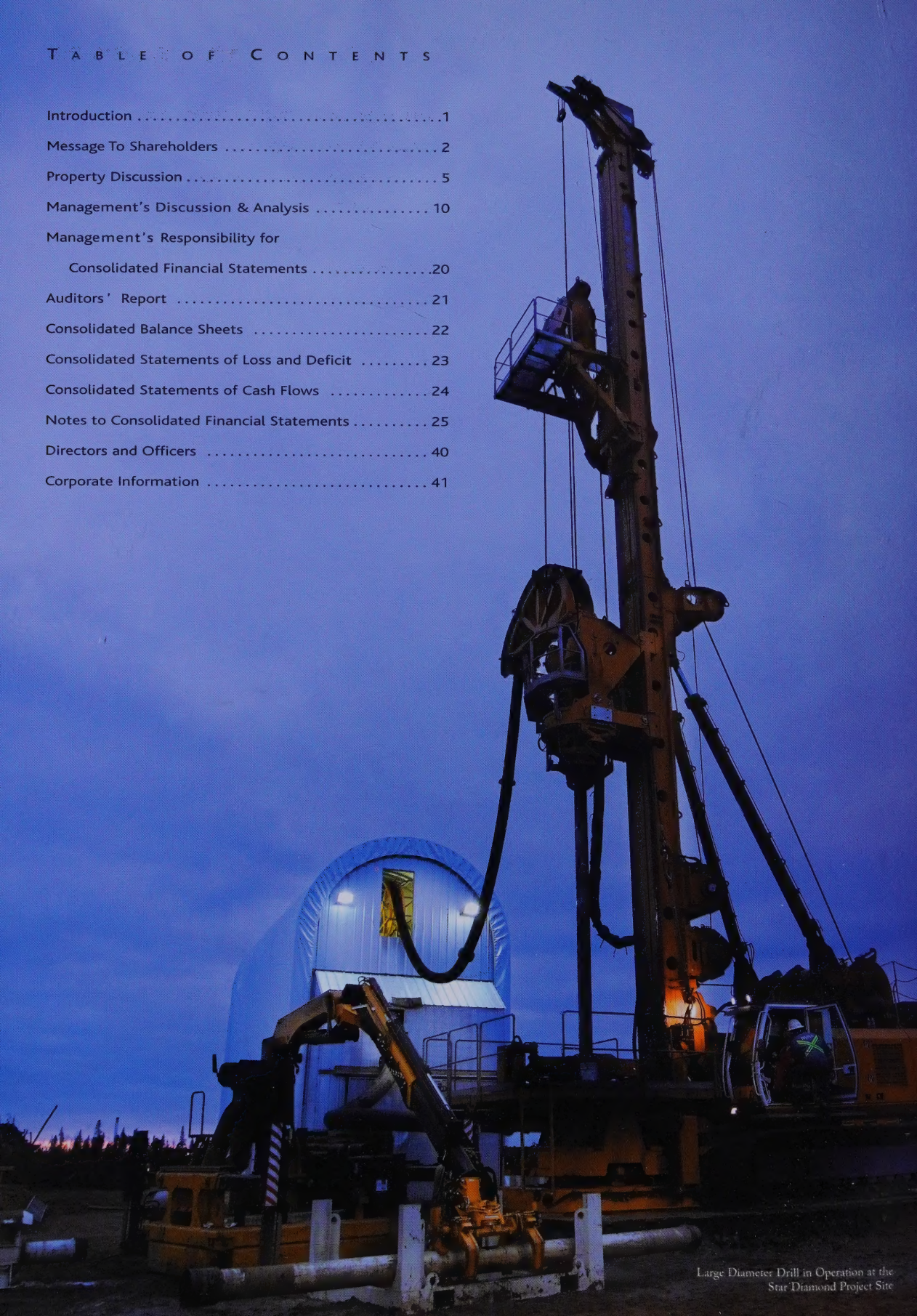
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Large Diameter Drill in Operation at the
Star Diamond Project Site

Shore Gold Inc. is a Canadian-based mineral exploration and development company with its head office in Saskatoon, Saskatchewan. The Company's mineral property portfolio consists of diamond properties: the Star Kimberlite deposit (Star) and the Fort á la Corne Joint Venture (FALC-JV).

The Company continues to focus its financial and technical resources on Star and the FALC-JV. The Star Kimberlite is 100% owned by Shore Gold Inc. In 2005 Kensington Resources Ltd. and Shore Gold Inc. completed a merger which provided Shore Gold Inc. with a 42.245% ownership position in the FALC-JV. Both properties are situated in a burned portion of the Fort á la Corne forest, approximately 60 kilometers east of the city of Prince Albert.

The common shares of Shore Gold Inc. trade on the TSX under the trading symbol "SGF".

The Annual General and Special Meeting of the Shareholders of Shore Gold Inc. will be held in Saskatoon at the Sheraton Cavalier Hotel in the Centre Room at 10:00A.M. on Thursday, June 15th, 2006. Shareholders are encouraged to attend. Those unable to attend the meeting should complete the form of Proxy included with the Shareholder Information Circular and forward it to Valiant Corporate Trust Company no later than 24 hours before the meeting.



Kenneth E. MacNeill
President & Chief Executive Officer

This past year has once again proven to be an extremely exciting year in the development of your Company. The year started with the completion of a valuation report on a parcel of carats totaling 3,049 carats recovered from the bulk sample carried out on the Star Kimberlite. This valuation reported a modeled value of US\$135 per carat and this led to the commencement of a prefeasibility study on the Star Kimberlite in May 2005 aimed at defining a Mineral Reserve on the property.

To finance the prefeasibility study together with other corporate objectives, your management commenced work on a financing in March 2005 that resulted in the raising of \$116,600,000. Of equal importance associated with this financing was the fact that Newmont Mining Corporation of Canada Limited ("Newmont") participated in this financing acquiring 9,249,000 shares representing a 9.9% interest in Shore. This strategic alliance with Newmont not only brought a significant amount of capital to the company but also brought a wealth of experience through Newmont's personnel that have historically dealt with large-scale open pit mining operations - something that I believe will prove invaluable as we move towards a production decision.

With it becoming apparent that the next stage for the Star Kimberlite was to commence the prefeasibility study, additional personnel were engaged to assist in this exercise. We have been extremely fortunate in recruiting highly qualified and experienced people necessary to carry out the progressive stages of the Star Kimberlite's evolution.

Shore management commenced discussions with Kensington Resources Ltd. and subsequently announced that an agreement had been reached whereby the two companies would merge. The merger was successfully completed towards the end of October 2005 whereby Shore issued 0.64 shares of Shore for every outstanding share of Kensington. The effect of this merger being that, together with its 100% interest in the Star Kimberlite land, Shore Gold Inc. now also holds a 42.245% interest in the adjoining property known as the Fort á la Corne Joint Venture upon which in excess of 60 kimberlites have been identified.



With an accelerated development plan for the Star Kimberlite and a desire to see an acceleration of activities on the Fort á la Corne Joint Venture program lands, we again felt it imperative to maximize our cash reserves to insure funding was available through to a production decision in the Fort á la Corne region. To this end, Shore completed a second financing in the year raising a further \$120,050,000 in November 2005. Newmont again participated in this financing to retain their previously acquired 9.9% ownership interest in Shore.

In addition to the preceeding corporate activities, a number of operational highlights from the year are also worthy of comment.

To begin, the first phase of bulk sampling, originally commenced in 2003 was completed in 2005. This program recovered 4,049 carats of diamonds from 25,253 tonnes of kimberlite. The first 3,049 carats recovered from this program were the carats valued as mentioned above. Upon completion of the bulk sample program, the prefeasibility phase commenced whereby a further 15,000 tonnes of kimberlite was to be recovered to significantly increase the diamond parcel to more rigorously constrain the diamond grades and values of the Early Joli Fou ("EJF") Kimberlite. This led to the recommissioning of the diamond processing plant in the third quarter of 2005.

Other accomplishments during 2005 associated with the prefeasibility phase included the completion of 123 three inch core holes to define the geology of the Star Kimberlite in detail. Further undertakings associated with this core drilling were the start of detailed quantitative geological core logging, geotechnical core logging, ore dressing studies, down-hole geophysics and

whole rock chemistry sampling. To facilitate this increased logging activity, a core logging facility was constructed on site. In addition to this facility, upgrades were made to the plant with the addition of a re-crush circuit, a self-cleaning scrubber and larger cut-off screens. In order to accommodate this increased activity, a new camp was also constructed during the year capable of housing 120 people.

Shore has achieved a number of milestones during 2005. None of these accomplishments would have been possible without the assistance of our strong workforce, consultants and contractors. From a total of 14 employees at the end of 2004, we now see our workforce that, at time of writing, included 92 employees. In this regard, we've been extremely fortunate to attract an experienced workforce committed to our ideals and look forward to their continued contributions through the coming year.

Through all our efforts over this past year, our primary objective has remained to do whatever is in the best interests of you, our shareholders. I'm pleased to see that the successes we've achieved and the interest we've garnered in Shore Gold Inc. over the past two years has contributed to a share price that has moved from \$1.89 at the end of 2003 to \$3.45 at the end of 2004 and \$7.68 at the end of 2005.

Much has been accomplished but much more remains to be done. I look forward to the challenges ahead and remain committed to serving you and your company through the coming year.



Kenneth E. MacNeill
President & Chief Executive Officer

"Feasibility study bulk sampling and drilling undertaken on the Star Diamond Project continue to show that Star has the potential to be a world class diamond mine. The FALC-JV has access to enormous volumes of diamondiferous kimberlite and Sherrill geologists are confident that this project may contain more than one Star-like deposit. Sherrill is now a major participant in one of the world's largest diamond exploration projects."



George H. Read
Senior Vice-President of Exploration
& Development



Star Diamond Project Exploration Site

The Star Diamond Project and the adjacent Fort á la Corne Joint Venture (FALC-JV) are located 60 kilometres east of Prince Albert, Saskatchewan, a major supply centre for Central Saskatchewan. A paved highway, gravel grid road system, and an extensive network of forestry roads provide excellent year round access. The Star Diamond Project consists of 45 contiguous mineral dispositions totalling 9,808 hectares and is 100% owned by Shore. The FALC-JV consists of 121 mineral dispositions with Shore acquiring a 42.245 percent interest in the project through the October 2005 merger with Kensington Resources Ltd.

GEOLOGICAL HISTORY

Alkaline volcanic rocks called kimberlites transport diamonds from the high temperature and pressure regimes of the earth's upper mantle to the surface of the crust. Kimberlites erupt violently at the earth's surface as volatile rich magmas with massive exsolution of carbon dioxide gas. An extensive field of kimberlite eruptions was emplaced in the Cretaceous period (100 million years ago) on the edge of the inland sea, the Western Interior Seaway - the sedimentary basin where the oil and gas deposits of Western Canada were formed. This expanding sea soon inundated the recently erupted kimberlites and buried them under marine mudstones. Normally the surface extruded kimberlite craters would be highly unstable under atmospheric conditions and the craters would weather rapidly and disappear; only the small underlying feeder pipes would remain. The highly resistant diamonds would be released into the streams and lakes of the regional sedimentary environment. However, in the case of the Fort á la Corne kimberlites (Star and FALC-JV)

the early, post eruption burial by marine mudstone ensures the preservation of the surface crater material, resulting in kimberlites of enormous areal extent which have potential for enormous ore volumes.

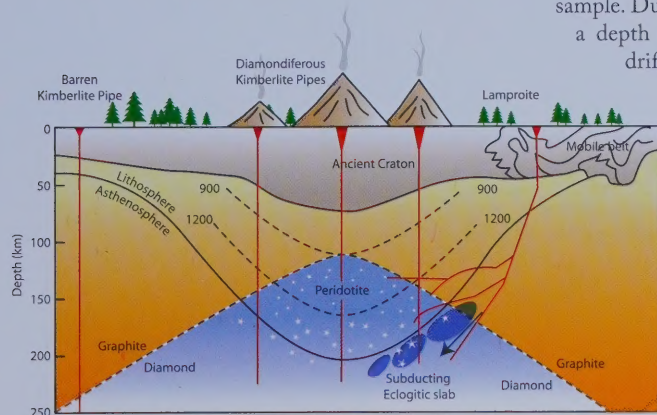
The Fort á la Corne kimberlites, which are buried under approximately 100 metres of overburden, were discovered using a combination of airborne geophysics (magnetics) and core drilling. The initial discovery, which ultimately resulted in the FALC-JV, was made by Uranerz Exploration and Mining in August 1989. The claims over the Star Kimberlite were staked in late 1995 and subsequent to airborne and ground geophysical surveys, the first kimberlite intersection was drilled in the fall of 1996.

Geochronology of crystalline basement xenoliths recovered from the Star Kimberlite and indicator mineral studies provide evidence that the craton beneath central Saskatchewan has the same thermal regime as the Slave Craton which hosts the EKATI and Diavik diamond mines. The Sask Craton has been defined as being highly prospective for diamondiferous kimberlites.

STAR DIAMOND PROPERTY

The ore value in a diamond mine is determined as a combination of carat values (US\$/carat) and grade (carats/tonne). Interpretation of early drilling results confirmed to Shore management that the true value of the deposit could only be determined by obtaining a large parcel of at least 3,000 carats of diamonds. A study of sampling methods quickly indicated that a large diamond parcel could be recovered most efficiently and cost effectively by way of a shaft and underground bulk sample. During 2003 and 2004 a shaft was sunk to a depth of 250 metres and network of lateral drifts was developed on the 235 metre level.

A winterized on-site Dense Media Separation (DMS) plant from Bateman Engineering BV in South Africa was commissioned in February 2004 and kimberlite extraction and processing continued into 2005. Phase 1 of underground bulk sampling on Star was completed in April 2005 and resulted in the recovery of 4,049 carat diamond parcel from 25,253 tonnes of excavated kimberlite.



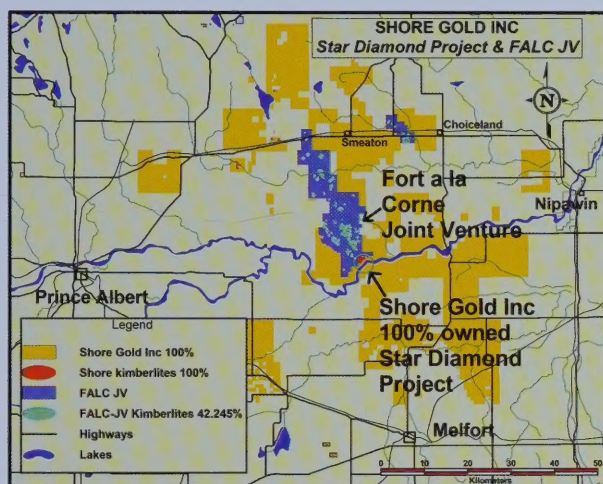
Cross Section of Kimberlite Forming Process



Dense Media Separation Plant

Once a diamond parcel in excess of 3,000 carats had been recovered from the Star deposit in January 2005, the diamonds were sent to Antwerp, Belgium for cleaning and valuation. A modelled value of US\$135 per carat was determined by WWW International Diamond Consultants Limited for the 3,049 carat diamond parcel. The parcel was examined by four companies: R. Steinmetz and Sons N.V., WWW International Diamond Consultants Limited, Rio Tinto Diamonds N.V. and BHP Billiton Diamonds (Belgium) N.V. The positive modelled value enabled Shore to proceed with a \$116.5 million financing in which Newmont Mining Corporation of Canada Limited participated. This financing provided the funding for Shore to commence an aggressive \$44 million prefeasibility study on the Star Kimberlite. The aim of the prefeasibility study is to define a National Instrument 43-101 compliant mineral reserve for the Star Kimberlite.

The principal components of the prefeasibility study are: the extraction of an additional 15,000 tonne bulk sample (Phase 2) from the underground workings, a PQ (75 millimetre) core drilling program and a large diameter drilling program. The aim of Phase 2 of the underground bulk sampling was to increase the size of the



diamond parcel from 4,000 to 6,000 carats for improved valuation and size frequency statistics. The pattern core drilling program, of which 123 holes (30,000 metre) have been completed to date, aimed to define the shape and size of Star and to map the internal structure. The large diameter drilling program, of which 18 holes have been completed, aims to define the grade across Star away from the shaft and underground workings.

In February 2006, when Phase 2 of the underground bulk sampling was well advanced, the total available diamond parcel was re-valued in Antwerp with the following results: (2005 results are shown for comparison)

Date	Carats	Modelled	Minimum	High
		US\$/carat	US\$/carat	US\$/carat
Feb 2005	3,049	135	110	162
Feb 2006	5,950	135	114	167

By the time of this February 2006 valuation, detailed core logging and underground mapping, combined with kimberlite whole rock geochemistry and downhole geophysical logging, had enabled Shore geologists to define five principal kimberlite phases within the Star Kimberlite, namely: Cantuar, Pense, Early Joli Fou (EJF), Mid Joli Fou (MJF) and Late Joli Fou (LJF). Two major lithologies have been identified within the EJF: EJF-Pyroclastic Kimberlite (EJF-PK) and EJF-Kimberlite Breccia (EJF-KB). These two lithologies occur as alternating units throughout the EJF and present estimates suggest that the EJF consists of 70 to 80 percent EJF-PK and 20 to 30 percent EJF-KB. Detailed underground mapping and whole rock



Logging Kimberlite Core On-site



Underground Workings



Star Kimberlite Diamonds

geochemistry have enabled Shore geologists to assign individual kimberlite batches of Phase 1 (original 25,000 tonnes) and Phase 2 (additional 17,000 tonnes) bulk samples to specific kimberlite phases. Shore geologists were also able to get diamond valuations assigned to some specific kimberlite phases and lithologies where sufficient diamonds were available. The best valuation result was assigned to a 1,993 carat parcel from the EJF-KB which was assigned a modelled value of US\$173 per carat and a minimum of US\$147 and a high of US\$218 per carat.

At the time of writing (April 2006) Phase 3 of the underground bulk sampling and a surface infill drilling program had commenced. In addition, a 6,750 line kilometre GeoTEM survey had been completed on surrounding Shore claims in the search for additional kimberlites.

FALC-JV PROPERTY

The FALC-JV consists of in excess of 50 drill-confirmed kimberlite bodies located in the main northwesterly trend with an additional 11 drill-confirmed kimberlites in a satellite cluster, the Snowden cluster, located 25 km to the northeast. Diamond recovery from kimberlite samples from the tested bodies indicate 70% of the kimberlites are diamond-bearing, and 50% are macrodiamond-bearing (based on recovery of stones >0.85 mm in one dimension).

In general, the project objective is to delineate mineable diamond resources from high-priority kimberlite bodies. In 2005 an aggressive drilling program was implemented covering 18 kimberlite bodies in the southern portion of the main Fort à la Corne kimberlite trend. One-hundred and forty-eight core holes drilled a total depth of over 34,000 metres while recovering nearly 13,000 metres of kimberlite. In addition, 500 metres of drilling was completed for hydrological testing. All the core has been logged in detail and included both geological and geotechnical examination. Over 10,000 kilograms of kimberlite was sampled for microdiamond recovery with processing ongoing with final results not yet in-hand.

A significant exploration program has been proposed to the FALC-JV partners that will help determine the vast exploration potential of this enormous kimberlite deposit.

The following Management Discussion and Analysis is prepared as of March 27, 2006 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2005. Shore Gold Inc. ("Shore" or "the Company") prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are reported in Canadian dollars unless otherwise indicated. The financial statements have been reconciled to US GAAP and the reconciliation can be found in Note 15 of the annual consolidated financial statements.

OVERVIEW

During 2005, the Company's exploration efforts continued to be focused on the Fort à la Corne area of central Saskatchewan where its 100% owned Star Diamond Property continues to produce encouraging results. Together with the recently acquired participating interest in the FALC Property, the Company has favorably positioned itself to consider a number of potential scenarios regarding the economics associated with the future development of the entire region.

This past year, Shore focused its attention on advancing its primary exploration asset (the Star Diamond Property) as well as on expanding its holdings in the Fort à la Corne region through the staking of additional claims as well as through the merger with Kensington Resources Ltd. ("Kensington") through which the Company acquired a 42.245% interest in what has become known as the FALC Property. The FALC Property is adjacent to the Star Diamond Property and is known to contain in excess of 60 kimberlitic bodies. The Company also completed two significant financings during 2005 and subsequently has seen its market capitalization increase from a little under \$200M just over a year ago to more than \$1.2B as at March 27, 2006.

During the first quarter of 2005, Shore announced that a valuation report associated to the first 25,000 tonne bulk sample from the Star Diamond Property had resulted in a modeled value of US\$135 per carat. This outcome prompted the Company to announce a \$44 million, 30 month pre-feasibility study on the Star Diamond Property, the largest work program outlined for any of the Fort à la Corne kimberlites to date. The pre-feasibility program started in May 2005 and significant progress has been made against the plan thus far. The results of a second valuation report that included diamonds recovered from a further 15,000 tonne bulk sample that forms part of the \$44 million pre-feasibility study were released in March 2006. The second valuation exercise revalued the diamonds originally valued from the previous year together with the diamonds recovered from the additional bulk sample material and was successful in meeting its objective of increasing confidence in the modeled diamond values. The most recent valuation report separated the diamond values between kimberlite types identified during the course of the original bulk sample and the additional 15,000 tonne sample. The kimberlite types identified during the bulk sample process included Early, Mid and Late Joli Fou, Cantuar and Pense. The Early Joli Fou was further broken down into two sub-types (Kimberlite Breccia & Pyroclastic). Of particular note was the 1,992.6 carats retrieved from the Early Joli Fou Kimberlite Breccia which had a modeled value of US\$173 per carat. This compares to a modeled value of US\$112 for the Early Joli Fou Pyroclastic kimberlite. The Early Joli Fou Kimberlite represents a significant lithology in the Star Diamond Property and the combined modeled value of the two Early Joli Fou sub-types was US\$130 per carat.

Based on forecasted programs and budgets for each of the Star Diamond Project and the FALC Property, the two financings completed in 2005 have generated sufficient cash to more than finance all pre-feasibility studies currently contemplated on the Star Diamond and FALC Properties. The first of these financings was completed in March 2005 whereby the Company issued 21.2 million shares realizing gross proceeds of \$116.6 million. The second financing of the year in November raised \$120.1 million through the issuance of 17.2 million common shares. Newmont Mining Corporation of Canada Limited ("Newmont") acquired a 9.9% interest in the Company by participating in the first financing and participated in the second financing as well to retain their 9.9% interest.

MERGER

On August 15, 2005, Shore and Kensington announced their intentions to merge. The proposed arrangement, which was finalized on October 28, 2005, created a consolidated company that has a significant interest in most of the currently known Fort à la Corne kimberlites. Upon completion of the merger, the consolidated company holds a 100% interest in the Star Kimberlite and a 42.245% interest in the FALC Property. As at March 27, 2006, Shore's land holdings in the Fort à la Corne forest comprises a total of 434 mineral claims totaling 187,593 hectares and the land holdings held by the FALC JV consists of 121 claims totaling 22,544 hectares.

The merger was followed by a press release on October 31, 2005 announcing that Shore had entered into a voting arrangement with Cameco Corporation ("Cameco") and UEM Inc. ("UEM") relating to the FALC Property whereby Cameco and UEM have agreed to vote with Shore on all operating decisions (excluding production decisions) to be made by the participants in the FALC JV over a term up to seven years in duration in exchange for \$10 million. On February 6, 2006, De Beers issued a statement of claim in the Court of Queen's Bench for Saskatchewan which named Shore, Kensington, Cameco and UEM as defendants. The claim is for a declaration that the voting agreement among Shore, Cameco and UEM is void, for an injunction restraining Shore from interfering with the independent exercise of votes by Cameco or UEM under the FALC JV Agreement and restraining Cameco and UEM from accepting voting instructions from Shore, and for damages against Shore for interference with economic relations and inducing breach of contract.

The named defendants are contesting the claim and arguments by all parties were heard in the Court of Queen's Bench in Saskatoon, Saskatchewan on March 16, 2006. A decision is expected in April of 2006.

Management is of the opinion, after review with legal counsel, that the claim is without merit and that the outcome of this action will not have a material financial impact on the financial position, results of operations and cash flows of the Company.

STAR DIAMOND PROPERTY PRE-FEASIBILITY PROGRAM

Shore's management was able to aggressively pursue its pre-feasibility study announced in May 2005. The announced \$44 million, thirty-month, pre-feasibility study includes the extraction of an additional 15,000 tonnes of kimberlite from the existing underground workings as well as 21,000 metres of PQ drilling from surface and 17,000 metres of mini-bulk sampling large diameter (1.2 metre) drilling ("LDD"). The large diameter drilling is estimated to recover an additional 10,000 tonnes of kimberlite. The aim of the pre-feasibility study is to define a National Instrument 43-101 compliant Mineral Reserve for the Star Diamond Property.

Shore has made significant progress with respect to this study. As of March 27, 2006 a total of 15,000 tonnes has been extracted and the valuation of diamonds recovered was released in March 2006. In addition, 21,000 metres of PQ core and 3,300 metres of the LDD drilling had been completed. The LDD aspect of the program has presented some difficulties as poor ground conditions in marine mudstones as well as deeper overburden further away from the shaft has slowed progress and may lead the Company to reevaluate some of the originally planned holes for which data may be extractable from information gained from the PQ drilling program.

During the fourth quarter, the Company announced that a Cantuar Kimberlite feeder vent had been intercepted during the core drilling program. The Cantuar Kimberlite is the earliest known kimberlite eruptive phase on the Star Diamond Property. From the positive results encountered to date, the Company is anticipating expanding its pre-feasibility to include a third phase that would see more bulk sampling from the existing underground workings of up to a maximum of 65,000 tonnes including kimberlite from the Cantuar, Pense and Mid Joli Fou Kimberlites. The third phase will also see an additional 19,000 meters of PQ core drilling of in-fill drilling. Certain aspects of the third phase of the pre-feasibility study are awaiting the appropriate exploration permits.

FALC JV ADVANCED EXPLORATION AND EVALUATION PLAN

In the fourth quarter of 2004, the FALC JV partners approved an Advanced Exploration and Evaluation Plan (the "AE & E Plan"). This plan described an accelerated work program covering approximately 3.5 years that was designed to advance the project to a pre-feasibility decision in 2008.

The first year of the AE&E Plan was budgeted at \$25.6 million, of which Kensington would be required to fund approximately \$12 million and consisted primarily of geological drilling to establish the presence of potentially higher grade units within 14 kimberlites. By December 31, 2005, a total of \$13 million, of which Kensington's share was approximately \$6.1 million had been incurred on the program. The actual expenditures during 2005 were primarily spent on certain of the core drilling originally contemplated by the AE & E plan.

During December 2005, Kensington presented an exploration program to the FALC JV partners. Agreement on the full scope of the proposed work has not yet been reached, but on March 15, 2006, Shore announced an additional drill program had commenced on the western part of the Star Kimberlite on the FALC Property, which is referred to as "Star West". The FALC JV will be responsible for the costs associated with the program of which Kensington will fund its share.

SELECTED ANNUAL INFORMATION

Selected financial information of the Company for each of the last 3 fiscal years is summarized as follows:

	2005	2004	2003
	\$	\$	\$
Revenues (000's)	3,367	232	102
Net loss (000's)	8,491	1,474	1,195
Net loss per share ⁽¹⁾	0.08	0.03	0.03
Total assets (000's)	776,752	63,467	20,479
Working capital ⁽²⁾ (000's)	252,648	27,649	3,629

(1) Basic and diluted.

(2) Before net change in non-cash working capital items.

Over the past year the Company has focused on growth and expansion. The completion of two public offerings for gross proceeds of \$237 million as well as the merger with Kensington (that was measured at fair-value), has caused total assets to increase by more than 1,000%. The merger with Kensington, which was accounted for using the purchase method resulted in the mineral properties increasing by \$419 million and added \$31 million in other assets, which predominately related to cash that Kensington held after completing a financing in May 2005.

The Company plans to utilize its working capital exploring and developing its 100% owned Star Kimberlite property and its 42.245% interest in the FALC Property. Until such time as the Company requires the cash to fund planned exploration programs, surplus cash will continue to be invested in relatively risk-free, short-term instruments intended to maximize return while being readily available for ongoing costs of the operation. As such, the Company has seen a dramatic increase in revenue from interest income compared to the two prior years.

The Company's net loss rose compared to the prior two years and is predominately related to the expense associated with the fair-value of stock based compensation of \$9 million. The Company's cash expenses rose by approximately \$1.4 million compared to the prior year and are indicative of the growth experienced by the Company. Finally, the Company experienced a dilution gain on the dilution of its equity holdings in Wescan Goldfields Inc. ("Wescan") as the result of Wescan initiating equity financings to fund exploration programs. The resulting dilution of the Company's interest created a gain of approximately \$1 million.

RESULTS OF OPERATIONS

For the year ended December 31, 2005, the Company recorded a net loss of \$8.5 million or \$0.08 per share compared to a net loss of \$1.5 million, or \$0.03 per share for 2004. The major differences between the year ended December 31, 2004 and 2005 is predominately related to the fair-value of stock options expensed of approximately \$9.0 million (2004 - \$147,000) as well as a general increases in all categories of expenses. The increase in expenses, both cash and non-cash, have been significantly offset by a \$3.2 million increase in interest income as a result of the Company having surplus cash invested after completing two financings during 2005.

Revenues

For the year ended December 31, 2005 the Company reported interest revenue of \$3.4 million as compared to \$0.2 million for the year ended December 31, 2004. The \$3.2 million increase in revenue in 2005 is significantly larger than the interest revenue from 2004 and is the result of investing surplus cash on hand after the completion of two equity financings during 2005 as well as interest rates improving over 2004 levels.

Expenses

Total operating costs for the year ended December 31, 2005 equaled \$12.3 million compared to \$2.0 million for the year ended December 31, 2004. This represents an increase of \$10.3 million or 515%. This increase can generally be explained due to the fair-value of stock-based compensation that was expensed during the year from the issuance of stock options. The fair-value of the options expensed during the year was \$9.0 million (2004 - \$147,000). Once the effect of accounting for stock-based compensation is removed, the specific categories of expenses become more comparable period over period. The following discussion relates to the expense variances, and removes the effect of stock-based compensation for comparative purposes.

Administration expense increased from \$0.9 million for 2004 to \$1.5 million for 2005. The \$0.6 million increase or 67% in administration expense is primarily due to wages and benefits for additional support personnel required for the increased activity of the Company. Consulting and professional fees increased from \$0.5 million for 2004 to \$0.9 million or 80% for 2005. The increase in fees is primarily due to legal fees associated with pre-feasibility due diligence, contract negotiations, amendments to the Company's corporate governance practices/policies, implementing the shareholder rights plan and amending the stock option plan, as well as professional fees surrounding various tax matters. Corporate development costs increased from \$0.4 million for 2004 to \$0.8 million for 2005. This represents a 100% increase and is the result of increased marketing efforts with respect to two equity financings. Finally, income tax expense went from almost nil in 2004 to \$0.4 million for 2005. The provision for income tax is made up of approximately \$0.1 million for large corporations tax and \$0.3 million for future income taxes. The increase in large corporation tax is the result of the financings, the merger and exploration expenditures that added a significant amount to the Company's taxable capital. The future income tax expense predominately relates to the taxable temporary difference arising from the dilution gain on the equity investment in Wescan.

Investing

In addition to the business combination adding approximately \$419 million to mineral properties, the Company also incurred another \$42.3 in mineral property additions related to the Star Property and accrued another \$2.4 million for the Company's percentage share of costs related to the FALC Property post merger. The expenditures on the Star Property related to the completion of the 25,000 tonne bulk sample during the first quarter and activity surrounding the \$44.0 million pre-feasibility study. Out of the \$42.3 million in additions to the Star Property, approximately \$3.5 million (2004 - \$0.1 million) represents non-cash expenses related to the fair-value of stock-based compensation to consultants, contractors, and employees working directly on the property. In addition to the \$44.7 million incurred on exploration activities for the consolidated Company, Shore entered into a voting agreement with Cameco and UEM for a cost of \$10 million plus \$0.3 million in professional and consulting fees to structure the deal. In 2004, the Company had mineral property additions totaling \$18.7 million and the additions predominately related to the first 25,000 tonne bulk sample from the Star Kimberlite.

Financing

During 2005, the Company completed two public offerings, the first of which occurred in March whereby 21.2 million common shares were issued for gross proceeds of \$116.6 million. The second offering occurred in November and saw the Company issue an additional 17.2 million shares for gross proceeds of \$120.1 million.

To finance the business combination between Shore and Kensington, Shore issued an aggregate of 51,706,786 common shares, representing 0.64 common shares for each issued and outstanding common share of Kensington to the former shareholders of Kensington as at October 28, 2005. An additional 6,879,962 common shares were reserved for issuance pursuant to options, warrants and broker warrants held by the former security holders of Kensington. The fair value of the common shares, options, and warrants issued on October 28, 2005 was approximately \$291.7 million. Kensington's net identifiable assets at the time of the merger approximated \$31 million and included \$35 million in cash that will be used to fund exploration programs on the FALC Property.

The exercise of 11.9 million options and warrants during the year resulted in additional cash flow from financing activities of \$28.4 million.

After paying for the Company's operating and investing activities, the Company's net increase to its cash position was \$233 million. This increase coupled with the \$29 million of cash on hand at the beginning of the year resulted in a \$262 million cash position at December 31, 2005.

SUMMARY OF QUARTERLY RESULTS

	2005				2004			
	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues ^(a) (000's)	1,469	805	810	283	121	29	44	37
Net loss ^(a) (000's)	5,551	1,159	180	1,599	246	202	567	460
Net loss/share ^(a)	0.05	0.01	0.00	0.02	0.01	0.00	0.01	0.01
Shares outstanding ^(a) (000's)	170,515	100,951	94,395	93,682	68,539	67,282	50,523	50,280

- (1) The increase in revenue in the last three quarters of 2005 is the result of having increased cash balances from the closing of equity financings in the first and fourth quarter of 2005.
- (2) The 1st, 3rd and 4th quarters of 2005 saw marked increases in operating costs primarily associated with the fair-value of stock-based compensation granted during the quarters.
- (3) Basic and diluted.
- (4) The Company completed a public offering on March 22, 2005 resulting in the issuance of 21.2 million shares from treasury. To culminate the merger between the Company and Kensington, the Company issued an aggregate of 51.7 million common shares, representing 0.64 common shares for each issued and outstanding common share of Kensington to the former shareholders of Kensington as at October 28, 2005. The Company completed its second public offering of the year by issuing 17.2 million common shares on November 29, 2005. Other changes in the number of shares outstanding are the result of warrant and option exercises.

LIQUIDITY

The Company does not currently operate any producing properties and, as such, is dependent upon the issuance of new equity to finance its ongoing obligations and advance its exploration properties. The Company's working capital at December 31, 2005 is \$253 million and is sufficient to cover all currently contemplated exploration programs for the Star Property and FALC Property. Until the Company's surplus cash is required to fund exploration or development activities it is being invested in relatively risk-free, short-term instruments with maturities not exceeding 3 months. Based on budgeted expenditure levels, the Company will earn interest income during 2006 that should generate a positive cash flow from operating activities.

As part of a larger financing in May 2005, Kensington raised \$10 million of flow-through financing to assist in their portion of the AE & E Plan on the FALC Property. To the end of December, Kensington's portion of expenditures related to the AE & E Plan was approximately \$7 million, with the remaining \$3 million to be incurred by the end of fiscal 2006.

To maintain its interest in the FALC Property, the Company is committed to fund its share of FALC Property costs. As at March 27, 2006, the FALC JV partners have not agreed upon a final budget regarding the exploration of the property; however, with working capital in excess of \$250 million at December 31, 2005, the Company does not envision any issues meeting commitments.

The Company's contractual obligations are as follows:

(Canadian dollars in thousands)

	Payment due by period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	Thereafter
Lease of Premises	\$ 1,495	\$ 172	\$ 544	\$ 307	\$ 472
Operating Lease Obligations	348	341	7	-	-
Flow-Through Funding	3,000	3,000	-	-	-
Total	\$ 4,843	\$ 3,513	\$ 551	\$ 307	\$ 472

During 2006, the Company is required to spend \$368,000 to maintain all mineral property claims currently held by Shore. Claims management on the FALC Property is the responsibility of De Beers (the Operator). Shore will fund its share of any costs associated with keeping the FALC Property claims in good standing.

CAPITAL RESOURCES

As at December 31, 2005, the Company had working capital of \$252.6 million as compared to \$27.6 million at December 31, 2004 and \$3.6 million at December 31, 2003. The Company received approximately \$28.4 million from the exercise of options and warrants since December 31, 2004. As at March 27, 2006, the Company had a total of 172,452,640 common shares issued and outstanding.

The major change in the total issued and outstanding shares of the Company is the result of the completion of the merger between Shore and Kensington which caused 51,706,786 shares of Shore to be issued for all the outstanding shares of Kensington. In addition, the Company issued 5,434,363 warrants and 705,579 broker warrants, all of which are the result of the Kensington warrants and broker warrants outstanding at the time of the merger and are exchangeable for Shore shares at a conversion rate of 0.64. As at March 27, 2006, there were 4,880,900 warrants and 207,701 broker warrants outstanding resulting from the business combination. Should all the warrants and broker warrants be exercised, the Company would be required to issue 3,256,704 common shares for gross proceeds of \$12.6 million.

As at March 27, 2006 there were 6,636,760 stock options outstanding and in the event all options are exercised, the Company would receive an additional \$25.6 million in proceeds.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2005, management and consulting fees of \$887,334 (2004 - \$668,020; 2003 - \$1,188,797) were paid to directors, officers and companies controlled by common directors; of these fees, \$233,583 (2004 - \$239,660; 2003 - \$141,917) was capitalized as additions to mineral properties; \$387,084 (2004 - \$215,480; 2003 - \$120,000) was included as administration expense, and \$266,667 (2004 - \$212,880; 2003 - \$188,805) was included as consulting and professional fees expense. The fair-value of stock-based compensation related to directors and officers of the Company during the year ended December 31, 2005 was \$6,167,510 (2004 - \$178,020; 2003 - \$566,955).

The above transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The fair-value of stock-based compensation was determined using the Black-Scholes model.

FOURTH QUARTER RESULTS

The fourth quarter saw significant activity with respect to the Company. The merger announced between Shore and Kensington was finalized and added over \$300 million to the consolidated Company's net equity.

For the quarter ended December 31, 2005, the Company recorded a net loss of \$5.6 million or \$0.05 per share compared to a net loss of \$0.2 million, or \$0.01 per share for the same period in 2004. The major differences between the quarter ended December 31, 2004 and 2005 is predominately related to the fair-value of stock options expensed of approximately \$6.2 million (2004 - nil) as well as a general increases in all categories of expenses.

The Company generated \$1.5 million in interest revenue during the fourth quarter compared to \$0.1 million for the corresponding period in 2004.

All categories of expenses have seen increases when compared to the fourth quarter of the year before. Total expenses, when the effect of the fair-value of stock based compensation is removed, went from \$0.5 million in the fourth quarter of 2004 to \$1.1 million in the fourth quarter of 2005. These levels of expenses are consistent with the growth the company has seen over the past 12 months.

During the fourth quarter the Company incurred \$18.9 million in mineral property additions related to the Star Diamond Property and accrued another \$2.4 million for the Company's share of costs related to the FALC Property post merger. Shore also entered into a voting agreement with Cameco and UEM for a cost of \$10 million.

During November, the Company completed a public offering whereby 17.2 million shares were issued for gross proceeds of \$120.1 million.

Critical Accounting Estimates

Shore's consolidated financial statements are prepared in conformity with Canadian generally accepted accounting principles ("GAAP"). The accounting policies for the purposes of Canadian GAAP are described in Note 2 to the consolidated financial statements.

Management considers the following policies to be the most critical in understanding the judgments that are involved in preparing the Company's consolidated financial statements and the uncertainties that could impact its results of operations, financial condition and cash flows.

Mineral properties

All costs related to the acquisition, exploration and development of mineral properties are capitalized. Upon commencement of commercial production, the related accumulated costs are amortized against future income of the project using the unit of production method over estimated recoverable reserves. Management periodically assesses carrying values of non-producing properties and if management determines that the carrying values cannot be recovered or the carrying values are related to properties that are allowed to lapse, the unrecoverable amounts are expensed.

The recoverability of the carried amounts of mineral properties is dependent on the existence of economically recoverable reserves, the ability to obtain the necessary financing to complete the development of such reserves and the success of future operations. The Company has not yet determined whether any of its mineral properties contain economically recoverable reserves. Amounts capitalized as mineral properties represent costs incurred to date, less write-downs and recoveries, and does not necessarily reflect present or future values.

When options are granted on mineral properties or properties are sold, proceeds are credited to the cost of the property. If no future capital expenditure is required and proceeds exceed costs, the excess proceeds are reported as a gain.

Stock-based compensation plans

Options granted under the share option plan on or after January 1, 2002 are accounted for using the fair-value of the options on the date of grant, which is determined by using an option-pricing model. The fair value estimate of the options is dependent on the assumptions of the expected term, volatility, risk-free rate of return and expected dividend yield which may be imprecise and depend partly on statistical inferences drawn from past experience. The estimated value of options can vary dramatically depending on the assumptions used and the actual value of the options may be materially different from the estimated value. Regardless of the actual value of the options or changes that may occur in any of the factors used in estimating the fair value, the expense recorded for stock compensation will not be adjusted.

NEW ACCOUNTING PRONOUNCEMENTS

Financial Instruments - Recognition and Measurement

In January 2005, the CICA released new Handbook Section 3855, "Financial Instruments - Recognition and Measurement", effective for annual and interim periods beginning on or after October 1, 2006. This new section establishes standards for the recognition and measurement of all financial instruments, provides a characteristics-based definition of a derivative financial instrument, provides criteria to be used to determine when a financial instrument should be recognized, and provides criteria to be used when a financial instrument is to be extinguished. The Company has not yet determined the affect these new standards will have on its financial position and results of operations.

Comprehensive Income and Equity

In January 2005, the CICA released new Handbook Section 1530, "Comprehensive Income", and section 3251, "Equity", effective for annual and interim periods beginning on or after October 1, 2006. Section 1530 established standards for reporting comprehensive income. These standards require that an enterprise present comprehensive income and its components, in a separate financial statement that is displayed with the same prominence as other financial statements. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in Section 3251 are in addition to Section 1530. The Company has not yet determined the affect these new standards will have on its financial position and results of operations.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures, as defined by Multilateral Instrument 52-109, were evaluated by the Chief Executive Officer and Chief Financial Officer as at the end of December 31, 2005 and they have determined that such disclosure controls and procedures were effective.

OUTLOOK

As at March 27, 2006, the Company had approximately \$247 million in cash and cash equivalents. This will be used to complete the pre-feasibility study announced in May 2005 and to undertake further programs on the Star Property once they are defined. The funds will also be used to fund the exploration and development of the FALC Property. The pre-feasibility study of the Star Diamond Property will be conducted in order to determine the project viability under current economic conditions. This will entail the collection of additional exploration information, such as geological, geotechnical, geometallurgical, geochemical, assaying and other relevant information to delineate and define the Star Kimberlite, with a sufficient level of confidence, to estimate a Mineral Resource conforming to National Instrument 43-101 and Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") standards.

The balance of cash and cash equivalents will be used to fund various other exploration activities, acquisition and exploration of additional diamond properties as opportunities warrant and general corporate matters.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

From time to time, Shore makes written or oral forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the Ontario Securities Act and the United States Private Securities Litigation Reform Act of 1995. Shore may make such statements in press releases, in other filings with Canadian regulators or the United States Securities and Exchange Commission, in reports to shareholders or in other communications. These forward-looking statements include, among others, statements with respect to Shore's objectives for the ensuing year, our medium and long-term goals, and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, objectives, expectations, anticipations, estimates and intentions. The words "may", "could", "should", "would", "suspect", "outlook", "believe", "plan", "anticipate", "estimate", "expect", "intend", and words and expressions of similar import are intended to identify forward-looking statements. In particular, statements regarding Shore's future operations, future exploration and development activities or the anticipated results of Shore's pre-feasibility study or other development plans contain forward-looking statements.

All forward-looking statements and information are based on Shore's current beliefs as well as assumptions made by and information currently available to Shore concerning anticipated financial performance, business prospects, strategies, regulatory developments, development plans, exploration, development and mining activities and commitments. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements as a number of important factors could cause the actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, developments in world diamond markets, changes in diamond valuations, risks relating to fluctuations in the Canadian dollar and other currencies relative to the US dollar, changes in exploration, development or mining plans due to exploration results and changing budget priorities of Shore or its joint venture partners; the effects of competition in the markets in which Shore operates; the impact of changes in the laws and regulations regulating mining exploration and development; judicial or regulatory judgments and legal proceedings; operational and infrastructure risks and the additional risks described in Shore's most recently filed Annual Information Form, annual and interim MD&A and short form prospectus, and Shore's anticipation of and success in managing the foregoing risks.

Shore cautions that the foregoing list of factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to Shore, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Shore does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by Shore or on our behalf.

ADDITIONAL INFORMATION

Additional information related to the Company, including the latest available Annual Information Form, is available on SEDAR at www.sedar.com

The accompanying consolidated financial statements of Shore Gold Inc. are the responsibility of management and have been approved by the Board of Directors.

Management in conformity with Canadian generally accepted accounting principles has prepared the consolidated financial statements. The consolidated financial statements include some amounts that are based on best estimates and judgements. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

The management of the Company, in furtherance of the integrity and objectivity of data in the consolidated financial statements, has developed and maintains a system of internal accounting controls. Management believes the internal accounting controls provide reasonable assurance that financial records are reliable and form a proper basis for preparation of consolidated financial statements and that assets are properly accounted for and safeguarded. The internal accounting control process includes management's communication to employees of policies that govern ethical business conduct.

The Board of Directors carries out its responsibility for the consolidated financial statements in this annual report principally through its audit committee, consisting entirely of outside directors. The audit committee reviews the Company's annual consolidated financial statements and recommends their approval to the Board of Directors. The shareholders' auditors have full access to the audit committee, with and without management being present.

The shareholders' auditors, KPMG LLP, Chartered Accountants, in accordance with Canadian generally accepted auditing standards, have examined these consolidated financial statements and their independent professional opinion on the fairness of the consolidated financial statements is attached.



Harvey J. Bay, CMA
Chief Financial Officer & Chief Operating Officer

Saskatoon, Canada
March 27, 2006

To the Shareholders of Shore Gold Inc.:

We have audited the consolidated balance sheets of Shore Gold Inc. as at December 31, 2005 and 2004 and the consolidated statements of loss and deficit and cash flows for each of the years in the three year period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2005 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Saskatoon, Canada
March 27, 2006

	December 31, 2005 (in thousands)	December 31, 2004 (in thousands)
Assets		
Current assets:		
Cash and cash equivalents	\$ 261,677	\$ 28,684
Receivables	5,160	928
Prepays	588	3
	<u>267,425</u>	<u>29,615</u>
Mineral properties (note 3)	507,288	33,422
Investment in Wescan Goldfields Inc. (note 5)	1,212	337
Property and equipment (note 6)	827	93
	<u>\$ 776,752</u>	<u>\$ 63,467</u>
Liabilities & Shareholders Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 14,777	\$ 1,966
Future income tax liability (note 11)	147,649	-
Shareholders equity:		
Share capital (note 8)	600,447	68,181
Contributed surplus (note 8(j))	31,024	1,974
Deficit	(17,145)	(8,654)
	<u>614,326</u>	<u>61,501</u>
Commitments and Contingencies (note 13)		
	<u>\$ 776,752</u>	<u>\$ 63,467</u>

On behalf of the Board:

Arnie E. Hillier



Director

A. Neil McMillan



Director

C O N S O L I D A T E D S T A T E M E N T S O F
L O S S A N D D E F I C I T

	2005 (in thousands)	2004 (in thousands)	2003 (in thousands)
Revenue			
Interest	\$ 3,367	\$ 232	\$ 102
Expenses			
Administration	7,743	926	469
Consulting & professional fees	2,713	595	565
Corporate development	1,835	464	221
	12,291	1,985	1,255
Loss before the undernoted items	(8,924)	(1,753)	(1,153)
Share of loss in Wescan Goldfields Inc. (note 5)	(74)	(29)	-
Gain on dilution of interest in Wescan Goldfields Inc. (note 5)	947	349	-
Amortization	(63)	(21)	(19)
Income taxes (note 11)	(377)	(20)	(23)
Net loss	(8,491)	(1,474)	(1,195)
Deficit, beginning of year as previously reported	(8,654)	(6,140)	(4,945)
Effect of change in accounting policy (note 8(h))	-	(841)	-
Dividends	-	199	-
Deficit, end of year	\$ (17,145)	\$ (8,654)	\$ (6,140)
Net loss per share			
Basic and diluted (note 9)	(0.08)	(0.03)	(0.03)
Weighted average number of shares outstanding	101,502	54,369	36,794

C O N S O L I D A T E D S T A T E M E N T S O F
C A S H F L O W S

	2005 (in thousands)	2004 (in thousands)	2003 (in thousands)
Cash provided by (used in):			
Operations:			
Net loss	\$ (8,491)	\$ (1,474)	\$ (1,195)
Non cash items:			
Amortization	63	21	19
Gain on dilution of interest in Wescan Goldfields Inc.	(947)	(349)	-
Share of loss in Wescan Goldfields Inc.	74	29	-
Fair value of stock options expensed	9,030	147	-
Future income taxes	254	-	-
Net change in non-cash operating working capital items:			
Prepays	(585)	(2)	11
Payables and accrued liabilities	272	(70)	(89)
	(330)	(1,698)	(1,254)
Investing:			
Mineral properties	(51,465)	(18,591)	(10,352)
Recovery of investment in Wescan Goldfields Inc.	-	247	-
Cash acquired on Kensington Resources Ltd. merger	35,537	-	-
Kensington merger costs	(8,585)	-	-
Property and equipment	(615)	(32)	(43)
Net change in non-cash investing working capital items:			
Receivables	(4,196)	56	(926)
Payables and accrued liabilities	7,905	268	1,724
	(21,419)	(18,052)	(9,597)
Financing:			
Issue of common shares (net of issue costs)	254,742	44,215	9,646
Dividends	-	(192)	-
	254,742	44,023	9,646
Increase in cash and cash equivalents	232,993	24,273	(1,205)
Cash and cash equivalents, beginning of year	28,684	4,411	5,616
Cash and cash equivalents, end of year	\$ 261,677	\$ 28,684	\$ 4,411

Notes to Consolidated Financial Statements (years ended December 31, 2005, 2004 and 2003)

(In thousands of Canadian dollars except per share amounts or as otherwise noted)

1. Nature of operations

Shore Gold Inc. was incorporated under the Canada Business Corporations Act on April 29, 1985. Shore Gold Inc. and its subsidiaries (collectively, "Shore" or "the Company") are engaged primarily in the exploration for and the development, mining and sale of precious metals and gems. Substantially all of the Company's efforts are devoted to the exploration and development of its mineral properties. The Company has not earned significant revenue and is therefore, considered to be in the development stage with respect to its current mineral property holdings.

2. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and, except as disclosed in note 15, conform in all material respect with accounting principles generally accepted in the United States. Generally accepted accounting principles require that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Areas of significance requiring the use of management estimates relate to the determination of the recoverability of capitalized mineral exploration costs and the determination of future income tax assets and liabilities. Actual recovered amounts could differ from those estimates.

A summary of significant accounting policies is as follows:

Consolidation principles

The consolidated financial statements include the accounts of the Company and its subsidiaries. Interests in joint ventures are accounted for by the proportionate consolidation method.

Cash and cash equivalents

Cash and cash equivalents includes cash, cash-in-trust and short-term investments that, on acquisition, have a term to maturity of three months or less. Cash-in-trust includes amounts in trust with transfer agents or legal firms where there are no restrictions on its use.

Mineral properties

Subject to compliance with Provincial Mineral Regulations, the Company holds the right to explore for and develop mineral resources on various Crown property dispositions within the Province of Saskatchewan. These rights are classified as mineral properties for financial statement purposes.

All costs related to the acquisition, exploration and development of mineral properties are capitalized. Upon commencement of commercial production from a property, the related accumulated costs are amortized using the unit of production method over estimated recoverable reserves. Interest on debt associated with the acquisition of mineral properties is capitalized until commencement of commercial production. There have been no interest costs capitalized to date. Management periodically assesses carrying values of non-producing properties and if management determines that the carrying values cannot be recovered or the carrying values are related to properties that are allowed to lapse, the unrecoverable amounts are expensed.

The recoverability of the carried amounts of mineral properties is dependent on the existence of economically recoverable reserves, the ability to obtain the necessary financing to establish the existence of reserves and to complete the development of such reserves and the success of future operations. The Company has not yet determined whether any of its mineral properties contain economically recoverable reserves. Amounts capitalized as mineral properties represent costs incurred to date, less write-downs and recoveries, and does not necessarily reflect present or future values.

When options are granted on mineral properties or properties are sold, proceeds are credited to the cost of the property. If no future capital expenditures are required and proceeds exceed costs, the excess proceeds are reported as a gain.

Investments

Investments in companies over which the Company has the ability to exercise significant influence are accounted for by the equity method. Under this method, the Company includes its proportionate equity interest of earnings (losses) of such companies.

Property and equipment

Property and equipment purchases are recorded at cost and are amortized using the declining balance method except for leasehold improvements, which are amortized on a straight-line basis over a term equal to the remaining life of the current lease agreement plus one renewal term. Annual amortization rates are as follows:

Automotive equipment	30%
Computer equipment	30%
Computer software	100%
Furniture and equipment	20%

Future income taxes

Future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying value of existing assets and liabilities and their respective tax basis. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is recognized in earnings in the period which includes the enactment date. Future income tax assets and liabilities are recorded in the financial statements if realization is considered more likely than not. The valuation of future income taxes is adjusted, if necessary, by the use of a valuation allowance to reflect the estimated recoverable amount.

Flow-through shares

The Company finances a portion of its exploration activities through the issue of flow-through shares. The Company renounces the deductions to investors and accordingly records share issue costs related to the future tax liability of the temporary difference arising from the renunciation. As a result, share capital is reduced and future income tax liabilities are increased by the estimated tax benefits when renounced by the Company to the investors, except to the extent that the Company has unused tax benefits on loss carryforwards and tax pools in excess of book values available for deduction against which a valuation allowance has been provided. In these circumstances, the future tax liability reduces the valuation allowance, if any, and the reduction is recognized in earnings.

Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding during the period. Diluted per share amounts are calculated based on the treasury-stock method, which assumes that any proceeds received on exercise of options and warrants would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

Stock-based compensation

The Company has a share option plan that is described in note 8(g).

Options granted under the share option plan on or after January 1, 2002 are accounted for using the fair-value method. Under this method, the fair value of stock options granted is measured at estimated fair value at the grant date and recognized over the vesting period. In accordance with the section 3870, "Accounting for Stock-Based Compensation and Other Stock-Based Payments, the Company elected to retroactively adopt this standard effective January 1, 2004 without restatement of prior periods. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus on options granted after January 1, 2002 is transferred to share capital. Previously, no compensation expense was recognized when stock options were granted to employees, officers and directors ("Grantees") and any consideration paid by Grantees upon exercise of these stock options was credited to share capital.

3. Mineral properties

Mineral properties is made up of the following:

	Star Property (a)	Fort á la Corne Property (b)	Other Diamond Properties (c)	Gold Properties	Total
Balance, December 31, 2003	\$ 14,627	\$ -	\$ 103	\$ 271	\$ 15,001
Expenditures during 2004					
Acquisition & staking	5	-	-	-	5
Exploration:					
Personnel	1,527	-	-	-	1,527
Recording fees & permits	78	-	-	-	78
Drilling	13,662	-	-	-	13,662
Equipment	2,209	-	-	-	2,209
Geophysical	28	-	-	-	28
Sampling/assaying	632	-	-	-	632
Field/project supplies	384	-	-	-	384
Travel	167	-	-	-	167
Disposal of mineral properties	-	-	-	(271)	(271)
Balance, December 31, 2004	\$ 33,319	\$ -	\$ 103	\$ -	\$ 33,422
Expenditures during 2005					
Acquisition & staking (note 4)	402	418,814	-	-	419,216
Intangibles (d)	-	10,037	-	-	10,037
Exploration:					
Personnel	7,641	28	-	-	7,669
Recording fees & permits	47	65	-	-	112
Drilling/Pre-feasibility	31,619	2,568	-	-	34,187
Equipment	1,516	-	-	-	1,516
Geophysical	-	-	-	-	-
Sampling/assaying	561	-	-	-	561
Field/project supplies	186	-	-	-	186
Travel	382	-	-	-	382
Balance, December 31, 2005	\$ 75,673	\$ 431,512	\$ 103	\$ -	\$ 507,288

The Company has not yet determined whether any of its mineral properties contain economically recoverable reserves. Amounts capitalized as mineral properties represent costs incurred to date, less write-downs and recoveries, and does not necessarily reflect present or future values.

a) Star Property

At December 31, 2005 the Company holds a 100% interest in the Star Property, consisting of certain mineral dispositions located in the Fort á la Corne kimberlite field approximately 60 kilometers east of Prince Albert, Saskatchewan. The majority of expenditures incurred by the Company over the past two years have been on exploring this property, including bulk sampling and the commencement of a pre-feasibility study.

b) Fort á la Corne Property

The Company, through its wholly owned subsidiary, Kensington Resources Ltd. ("Kensington") holds a 42.245% interest in certain mineral claims in the Fort á la Corne area of Saskatchewan. Other interests in the property are as follows: De Beers Canada Inc. ("De Beers")(42.245%), UEM Inc.("UEM")(10% carried) and Cameco Corporation ("Cameco")(5.51%).

c) Other Diamond Properties

At December 31, 2005 the Company holds a 100% interest in two additional diamond properties located northwest of the Fort á la Corne kimberlite field area known as the Foxford/Birchbark and Weirdale properties.

d) Intangibles

Shore entered into a voting arrangement with Cameco and UEM relating to the Fort á la Corne Property. Pursuant to this arrangement, these parties have agreed to vote with Shore on all operating decisions over a term up to seven years in exchange for a cash payment of \$10 million by Shore.

The voting arrangement became effective October 31, 2005 and expires October 31, 2012. The cost of the arrangement is being amortized over its estimated useful life of 7 years with amortization calculated on a straight-line basis and is capitalized to mineral properties. A summary is as follows:

Cost of voting arrangement, including acquisition costs	\$	10,282
Less: amount amortized to mineral properties		245
	\$	10,037

4. **Merger with Kensington Resources Ltd.**

On August 15, 2005 Shore and Kensington announced the signing of a definitive agreement (the "Combination Agreement") to merge the two companies. On October 21, 2005, the shareholders of Kensington approved the Plan of Arrangement ("the Plan") as contemplated in the Combination Agreement. On October 28, 2005 the Supreme Court of the Yukon Territory approved the merger between Shore and Kensington.

Pursuant to the Combination Agreement and the Plan of Arrangement, Shore issued an aggregate of 51,706,786 common shares, representing 0.64 common shares for each issued and outstanding common share of Kensington to the former shareholders of Kensington as at October 28, 2005. An additional 6,879,962 common shares were reserved for issuance pursuant to options, warrants and broker warrants held by the former security holders of Kensington.

The purchase price, based on the fair value of common shares, options, and warrants issued by Shore on October 28, 2005 at a value determined as the average share price of Shore shares two days before and after August 15, 2005, the date the merger was agreed to and announced, is \$291.7 million plus merger costs of \$8.6 million. The merger was accounted for using the purchase method with Shore being identified as the acquirer. The results of operations of Kensington are included in Shore's consolidated financial statements from the effective date of the merger. The allocation of the purchase price is summarized below:

Net assets acquired:		
Working capital, including cash of 35,537	\$	30,919
Property and equipment		182
Mineral properties		418,814
Future income tax liabilities		(149,611)
Total net assets acquired	\$	300,304
Purchase price financed by:		
Common shares of Shore (51,706,786 shares at \$5.25)	\$	271,461
Fair value of Shore options issued to Kensington option holders ⁽¹⁾		11,584
Fair value of Shore warrants and broker warrants issued to Kensington warrant and broker warrant holders ⁽²⁾		8,674
Transaction costs		8,585
Total purchase price	\$	300,304

- (1) On October 28, 2005 Kensington had outstanding 4,610,000 options that were exchanged for Shore options at a rate of 0.64:1. The options were valued using the Black-Scholes option-pricing model with the following assumptions: volatility of 68%, risk-free rate of return of 4%, expected dividend of 0%, and expected term of 3.5 years
- (2) On October 28, 2005 Kensington had 6,139,940 warrants and broker warrants outstanding that were exchanged for Shore warrants, which entitled the holder to 0.64 shares of Shore shares upon exercise. The warrants were valued using the Black-Scholes option-pricing model with the following assumptions: volatility of 86%, risk-free rate of return 4%, expected dividend of 0%, and expected term of 0.8 years.

5. Investment in Wescan Goldfields Inc.

During 2004, the Company transferred its ownership interests in all its gold properties to its then wholly owned subsidiary Wescan Goldfields Inc. ("Wescan") in exchange for 12,000,000 common shares of Wescan. Subsequent to the acquisition of the gold properties, Wescan filed an Initial Public Offering ("IPO"). The IPO also qualified for distribution of a dividend-in-kind of a portion of the Company's common shares in Wescan to the Company's shareholders of record as of September 10, 2004. This resulted in the Company distributing 3,529,995 of its Wescan shares to its shareholders on the basis of one Wescan share for every ten Shore shares held as of September 10, 2004. A number of Shore shareholders either did not elect to receive or did not qualify under existing regulations to receive a dividend-in-kind and received a cash dividend instead. This resulted in the Company issuing a cash dividend to those shareholders equal to \$0.10 for every ten shares of Shore held for a total cash dividend of \$192,080. A portion of these shares has been escrowed and is scheduled for release to the Company over three years. During 2005, Shore's ownership was diluted down to 18.1% (2004 - 27.3%) as a result of various private placements and option and warrant exercises. The dilution resulted in a gain of \$947,397.

At December 31, 2005, Shore or its wholly owed subsidiaries held 8,474,086 (2004 - 8,470,105) shares of Wescan. During the year Shore's weighted average investment in Wescan was 23.4%. Shore has accounted for its interest in Wescan on an equity basis. As at December 31, 2005, 60% of these shares were held in Escrow and scheduled for release over the next 24 months.

The investment in Wescan Goldfields Inc. consists of the following:

Initial investment on transfer of gold properties	\$	271
Share of losses to date of initial public offering		(247)
Investment immediately prior to initial public offering	\$	24
Dividend -in-kind		(7)
Gain on dilution in equity investment		349
Share of losses		(29)
Balance at December 31, 2004	\$	337
Fair value of Wescan shares held by Kensington Resources Ltd. upon amalgamation		2
Gain on dilution in equity investment		947
Share of losses		(74)
Balance at December 31, 2005	\$	1,212

Wescan Goldfields Inc. is publicly traded on the TSX Venture exchange. The trading value of the Company's equity interest in Wescan Goldfields Inc. at December 31, 2005 is \$8,389,000 (2004 - \$2,372,000).

6. Property and equipment

Property and equipment is made up of the following:

	Cost	Accumulated Amortization	2005 Net Book Value	2004 Net Book Value
Automotive equipment	\$ 38	\$ 6	\$ 32	\$ -
Computer equipment	112	48	64	19
Computer software	7	3	4	-
Furniture & equipment	382	45	337	27
Leasehold improvements	433	43	390	47
	\$ 972	\$ 145	\$ 827	\$ 93

7. Accounts payable and accrued liabilities

At December 31, accounts payable and accrued liabilities consisted of the following:

	2005	2004
Trade payables	\$ 6,035	\$ 1,278
Accrued liabilities	1,520	688
Property cash calls accrued	7,222	-
	\$ 14,777	\$ 1,966

8. Share capital

Authorized

The authorized share capital of the Company consists of unlimited common shares.

The common shares of the Company are entitled to dividends pro-rated and when declared by the Board of Directors; to one vote per share at meetings of the shareholders of Shore Gold Inc. and, upon dissolution or any other distribution of assets, to receive pro-rated such assets of the Company as are distributable to the holders of the common shares.

Issued and outstanding (in thousands)

	2005			2004		
	Common Shares	Warrants	Amount	Common Shares	Warrants	Amount
Balance, beginning of year	68,539	9,333	\$ 68,181	43,138	5,175	\$ 24,713
Common shares issued (a)	-	-	-	6,470	3,235	11,000
Common shares issued (b)	-	-	-	12,564	6,282	27,640
Common shares issued (c)	21,200	-	116,600	-	-	-
Common shares issued (note 4)	51,707	5,434	271,461	-	-	-
Common shares issued (d)	17,150	-	120,050	-	-	-
Warrants exercised/expired (e)	9,333	(9,333)	23,683	5,258	(5,359)	7,000
Broker warrants exercised (f)	1,443	-	4,609	775	-	1,479
Options exercised (g)	1,143	-	3,936	334	-	682
Issue costs	-	-	(8,073)	-	-	(4,333)
Balance, end of year	170,515	5,434	\$ 600,447	68,539	9,333	\$ 68,181

a) Common shares

During 2004, the Company issued 6,470,589 units for gross proceeds of \$11,000,001. Each unit consisted of one common share in the capital of the Company and one-half common share purchase warrant. Each whole common share purchase warrant entitled the holder to acquire one common share at an exercise price of \$2.10 for a period of 12 months from the closing date.

b) Common shares

During 2004, the Company issued 12,563,673 units for gross proceeds of \$27,640,081. Each unit consisted of one common share in the capital of the Company and one-half common share purchase warrant. Each whole common share purchase warrant entitled the holder to acquire one common share at an exercise price of \$2.75 for a period of 12 months from the closing date.

c) Common shares

During March of 2005 the Company issued, through a public offering, 21,200,000 shares for gross proceeds of \$116,600,000.

d) Common shares

During November of 2005 the Company issued, through a public offering, 17,150,000 shares for gross proceeds of \$120,050,000.

e) Warrants

On certain issues of common shares, the Company attached warrants to the common shares entitling the holder to acquire additional common shares of the Company. A summary of the outstanding warrants (in thousands) is as follows:

	Warrants	Average Price
Balance - December 31, 2003	5,175	\$1.31
Granted	9,517	2.53
Exercised/expired	(5,359)	1.33
Balance - December 31, 2004	9,333	2.54
Granted	-	-
Issued on Kensington merger	5,434	2.43
Exercised	(9,333)	2.54
Balance - December 31, 2005	5,434	\$2.43

As part of the merger between the Company and Kensington each outstanding warrant of Kensington became a warrant of the Company. At October 28, 2005 there were 5,434,358 warrants of Kensington which entitled the holder to 0.64 shares of Shore for a total of 3,477,989 shares of Shore being issued upon exercise.

As at December 31, 2005 the warrants outstanding (in thousands) were as follows:

Number	Exercise Price	Expiry date
5,029	2.50	May 6, 2006
405	1.55	March 24, 2006
5,434	2.43	

f) Broker warrants and broker unit warrants

On certain issuances of common shares, the Company granted either broker unit warrants or broker warrants as partial consideration to the agent for services associated to such share issues. A summary of the outstanding broker warrants (in thousands) is as follows:

	Broker Warrants	Average Price	Underlying Warrants	Average Price
Balance - December 31, 2003	775	\$1.53	226	\$2.10
Granted	795	2.20	398	2.75
Exercised	(775)	1.53	-	-
Balance - December 31, 2004	795	2.20	624	2.51
Granted	-	-	-	-
Issued on Kensington merger	348	3.28	104	3.91
Exercised	(819)	2.20	(624)	2.51
Balance - December 31, 2005	324	\$3.28	104	\$3.91

As part of the merger with Kensington each outstanding broker warrant of Kensington became a broker warrant of the Company. At October 28, 2005 there were 543,579 broker warrants and attached underlying warrants of 162,000 of Kensington which entitled the holder to 347,890 and 103,680 shares of Shore being issued upon exercise, respectively. Kensington broker warrants and underlying warrants expire May 6, 2006.

The broker warrants issued in 2004 were fair valued using the Black-Scholes option-pricing model at \$1,366,977 (2003 - \$92,814).

g) Share option plan

The Company has established a share option plan whereby options may be granted to directors, officers, consultants and employees to purchase common shares of the Company. On February 2, 2005, the Company amended its stock option plan so that the maximum number of common shares issuable under the plan was changed from a fixed maximum to a rolling maximum of 10% of the issued and outstanding shares. As at December 31, 2005, the number of shares reserved under the plan is 14,613,400. Options granted have an exercise price of not less than the closing price quoted on the Toronto Stock Exchange for the common shares of Shore on the trading day prior to the date on which the option is granted. Options granted vest immediately and have varying expiration dates between 4 and 5 years from the date of the grant of the options.

During 2005, the Company granted 3,696,000 (2004 - 800,000) options to officers, directors, consultants and employees. The fair value of these options was determined using the Black-Scholes option-pricing model with the following assumptions:

	2005	2004	2003
Number of options granted (in thousands)	3,696	800	1,925
Average strike price	\$5.74	\$1.96	\$0.90
Expected dividend	-	-	-
Expected volatility	62.18%	61.10%	56.30%
Risk-free interest rate	4.05%	3.49%	3.93%
Expected life of options	5.00	4.93	3.38
Weighted average grant date fair values	\$12,565	\$248	\$784

The fair value of the options granted and vested during 2005, using the Black-Scholes option-pricing model was \$12,565,389 (2004 - \$247,680). Of this amount, \$3,535,467 (2004 - \$100,620) was capitalized as an addition to mineral properties and \$9,029,922 (2004 - \$147,060) was expensed with a corresponding increase of \$12,565,389 (2004 - \$247,680) to contributed surplus.

For options outstanding (in thousands) at December 31, 2005, 2004 and 2003, weighted average exercise prices are as follows:

	Options	Average Price
Balance December 31, 2002	1,550	\$0.47
Granted	1,925	0.90
Exercised	(1,543)	0.55
Balance December 31, 2003	1,932	\$0.84
Granted	800	1.96
Exercised	(334)	0.81
Balance December 31, 2004	2,398	\$1.22
Granted	3,696	5.74
Issued on Kensington merger	2,950	1.70
Exercised	(1,143)	1.20
Balance December 31, 2005	7,901	\$3.52

For options outstanding (in thousands) at December 31, 2005, all of which are exercisable, the range of exercise prices; weighted average exercise price and the weighted average remaining contractual life is as follows:

Option Price Per Share	Options Outstanding December 31, 2005	Weighted Average Exercise Price	Weighted Average Remaining Life
\$0.00 - 0.99	850	\$0.78	1.87 years
\$1.00 - 1.99	2,175	1.37	2.16 years
\$2.00 - 2.99	823	2.12	3.36 years
\$3.00 - 3.99	1,207	3.09	3.76 years
\$4.00 - 4.99	701	4.58	4.50 years
\$5.00 - 5.99	120	5.46	4.62 years
\$6.00 - 6.99	40	6.34	4.79 years
\$7.00 - 7.99	1,985	7.33	4.86 years
	7,901	\$3.52	3.44 years

h) Change in accounting policy

Effective January 1, 2004, CICA Handbook Section 3870 was revised, requiring that a fair value based method of accounting be applied to direct awards of stock. The revision permitted to use the fair value method of accounting for direct awards of stock issued after January 1, 2002. In accordance with the section, the Company elected to retroactively adopt this standard effective January 1, 2004 without restatement of prior periods.

For the year ended December 31, 2003, the Company's pro forma expense attributable to stock options was \$738,075 and pro forma net loss for the year was \$1,933,426 and basic and diluted loss per share was \$0.05. During 2003, the Company also granted stock options to certain contractors with a fair-value as determined using the Black-Scholes model of \$46,169. This amount was capitalized as an addition to mineral properties

The cumulative effect of the change in accounting policy, adopted January 1, 2004 with respect to accounting for stock-based compensation was as follows:

Year	Amount
2002	\$ 103
2003	738
Amount charged to 2004 opening deficit	\$ 841

i) Shareholder protection rights plan

The directors of the Company approved a shareholder protection rights plan ("Rights Plan") on January 19, 2005. In the event a bid to acquire control of the Company is made, the Rights Plan is designed to give the directors of the Company time to consider alternatives to allow shareholders to receive full and fair value for their shares. In the event that a bid, other than a permitted bid, is made, shareholders become entitled to exercise rights to acquire common shares of the Company at 50 percent of market value. This would significantly dilute the value of the bidder's holdings.

j) Contributed surplus

The fair-value of certain stock options, warrants and broker warrants have been valued using the Black-Scholes option-pricing model. The fair-value on the grant of these securities is added to contributed surplus. Upon exercise, the corresponding amount of contributed surplus related to the security is removed from contributed surplus and added to share capital. A summary of the contributed surplus activity is as follows:

	2005	2004
Balance - beginning of year	\$ 1,974	\$ 750
Fair value of options granted	12,565	248
Fair value of broker warrants granted	-	1,367
Fair value of options from Kensington merger	11,584	-
Fair value of warrants and broker warrants from Kensington merger	8,674	-
Less: contributed surplus related to options exercised	(2,556)	(97)
Less: contributed surplus related to warrants exercised	(51)	-
Less: contributed surplus related to broker warrants exercised	(1,166)	(294)
Balance - end of year	\$ 31,024	\$ 1,974

9. Per share amounts

Basic loss per common share is computed by dividing net loss applicable to common shares by the weighted average number of common shares issued and outstanding for the relevant period. Diluted loss per common share is computed by dividing net loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued. The calculation of loss per share amounts is based on the following:

	2005	2004	2003
Numerator:			
Loss applicable to common shares	\$ 8,491	\$ 1,474	\$ 1,195
Denominator:			
Weighted average common shares outstanding	101,502	54,369	36,794
Basic and diluted loss per common share	\$ 0.08	\$ 0.03	\$ 0.03

Excluded from the calculation of diluted loss per common share were the effects of outstanding options and warrants as the effect on basic loss per share would be anti-dilutive.

10. Related party transactions

During the year ended December 31, 2005, management and consulting fees of \$887,334 (2004 - \$668,020; 2003 - \$1,188,797) were paid to directors, officers and companies controlled by common directors; of these fees, \$233,583 (2004 - \$239,660; 2003 - \$141,917) was capitalized as additions to mineral properties; \$387,084 (2004 - \$215,480; 2003 - \$120,000) was included as administration expense, and \$266,667 (2004 - \$212,880; 2003 - \$188,805) was included as consulting and professional fees expense. The fair-value of stock-based compensation related to directors and officers of the Company during the year ended December 31, 2005 was \$6,167,510 (2004 - \$178,020; 2003 - \$566,955).

The above transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The fair-value of stock-based compensation was determined using the Black-Scholes model.

11. Income taxes

The significant components of future income tax assets and liabilities at December 31, 2005 and 2004 are as follows:

	2005	2004
Future income tax assets		
Non-capital loss carry forwards	\$ 5,839	\$ 2,492
Share issue costs	4,669	1,112
Future income tax assets before valuation allowance	10,508	3,604
Future income tax liabilities		
Investments	\$ (187)	\$ (26)
Mineral properties	(157,970)	(2,442)
Future income tax liabilities	(158,157)	(2,468)
Net future income tax asset (liability) before valuation allowance	(147,649)	1,136
Less: valuation allowance	-	(1,136)
Net future income tax asset (liability)	\$ (147,649)	\$ -

The provision for income taxes differs from the amount computed by applying the combined expected federal and provincial income tax rate to earnings before income taxes. The reasons for these differences are as follows:

	2005	2004	2003
Loss before income taxes	\$ 8,114	\$ 1,454	\$ 1,172
Combined federal and provincial tax rate	43%	44%	45%
Expected tax recovery	(3,489)	(640)	(527)
Increase (decrease) in taxes resulting from:			
Non-deductible stock option expenses	3,883	65	-
Other non-deductible amounts	53	24	3
Tax effect on dilution gain	(204)	(77)	-
Tax benefits of losses not recognized	-	(314)	-
Effect of change in effective tax rates	11	-	-
Change in valuation allowance	-	942	(524)
Future income tax expense	254	-	-
Large corporations tax	123	20	23
Provision for income taxes	\$ 377	\$ 20	\$ 23

During the year the Company paid \$47,000 (2004 - \$ 20,000; 2003 - \$0) in large corporations taxes.

At December 31, 2005, the Company had operating losses for income tax purposes approximating \$14,920,000 that are available to reduce taxes in future years and expire over the period to the year 2012.

12. Financial instruments

Financial instruments are initially recorded at cost. The fair values of cash and cash equivalents, receivables and payables and accrued liabilities approximate their recorded amounts due to their short-term nature.

13. Commitments and Contingencies**i) Commitments**

The Company, through its wholly owned subsidiary Kensington, is committed to spend \$10,000,190 of qualifying Canadian Exploration Expenses as defined by the Canadian *Income Tax Act* prior to December 31, 2006.

As at December 31, 2005, the Company is committed to operating leases for office space and various equipment as follows:

Year	
2006	\$ 513
2007	179
2008	185
2009	187
2010	166
Thereafter	613
Total	\$ 1,843

ii) Contingencies

On February 6, 2006, De Beers issued a statement of claim in the Court of Queen's Bench for Saskatchewan which named Shore, Kensington (which is a wholly-owned subsidiary of Shore), Cameco and UEM as defendants. The claim is for a declaration that the voting arrangement dated October 31, 2005 among Shore, Cameco and UEM is void and is seeking an injunction restraining Shore from interfering with the independent exercise of votes by Cameco or UEM under the operating agreement; restraining Cameco and UEM from accepting voting instructions from Shore and for damages against Shore for interference with economic relations and inducing breach of contract.

The defendants are contesting the claim and a hearing on the merits was held on March 16, 2006 with a decision expected to be released in April of 2006.

Management is of the opinion, after review with legal counsel, that the claim is without merit and that the outcome of this action will not have a material financial impact on the financial position, results of operations and cash flows of the Company.

14. Comparative Figures

Certain prior years' balances have been reclassified to conform to the current financial statement presentation.

15. Differences from United States accounting principles

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. The Company monitors differences between generally accepted accounting principles ("GAAP") in Canada and the United States ("U.S."), none of which have a material effect on the financial statements except as summarized below:

a) Balance Sheet

	2005	2004
Mineral properties - Canadian GAAP	\$ 507,288	\$ 33,422
Cumulative exploration expenditures expensed under U.S. GAAP (i)	(82,062)	(28,373)
Adjustment to purchase price on Kensington merger (ii)	(36,553)	-
Mineral properties - U.S. GAAP	\$ 388,673	\$ 5,049
Investment in Wescan Goldfields Inc. - Canadian GAAP	\$ 1,212	\$ 337
Increase in share of losses due to cumulative exploration expenditures being expensed under U.S. GAAP (ii)	(236)	(5)
Investment in Wescan Goldfields Inc. - U.S. GAAP	\$ 976	\$ 332
Future income tax liability - Canadian GAAP	\$ 147,649	\$ -
Adjustment to purchase price on Kensington merger (ii)	(36,553)	-
Future income tax recovery (i)	(9,800)	-
Future income tax liability - U.S. GAAP	\$ 101,296	\$ -
Share capital - Canadian GAAP	\$ 600,447	\$ 68,181
Cumulative adjustment for flow-through share premiums (iii)	(473)	(473)
Share capital - U.S. GAAP	\$ 599,974	\$ 67,708
Contributed Surplus - Canadian GAAP	\$ 31,024	\$ 1,974
Reverse effect of change in accounting policy (v)	(841)	(841)
Contributed Surplus - U.S. GAAP	\$ 30,183	\$ 1,133
Deficit - Canadian GAAP	\$ 17,145	\$ 8,654
Cumulative exploration expenditures (i)	82,062	28,373
Future income tax recovery (i)	(9,800)	-
Cumulative increase in equity loss (iii)	236	5
Cumulative future income tax expense (recovery) on renunciation of flow-through shares (iii)	(473)	(473)
Reverse effect of change in accounting policy (v)	(841)	(841)
Deficit - U.S. GAAP	\$ 88,329	\$ 35,718
Shareholder's Equity - U.S. GAAP	\$ 541,828	\$ 33,123

b) Statement of Loss

	2005	2004	2003
Net loss - under Canadian GAAP	\$ (8,491)	\$ (1,474)	\$ (1,195)
Exploration expenditures (i)	(53,689)	(16,144)	(7,580)
Future income tax recovery (i)	9,800	-	-
Increase in equity loss (iii)	(231)	(5)	-
Renunciation of tax deductions on flow-through shares (iv)	-	66	245
Net loss per share under U.S. GAAP	\$ (52,611)	\$ (17,557)	\$ (8,530)
Comprehensive loss under U.S. GAAP	\$ (52,611)	\$ (17,557)	\$ (8,530)
Loss per share under U.S. GAAP			
Basic and diluted	\$ 0.52	\$ 0.32	\$ 0.23

i) Mineral property exploration expenditures

Mineral property exploration expenditures are capitalized in accordance with Canadian GAAP. For U.S. GAAP purposes, the Company expenses, as incurred, exploration expenditures relating to unproven mineral properties. When proven and probable reserves are determined for a property and a final feasibility study determines the economic recoverability of these reserves, subsequent development costs of the property are capitalized.

The tax benefit on the post Kensington merger exploration expenditures that have been expensed under U.S. GAAP result in a recovery of taxes and a corresponding reduction to future income tax liability.

ii) Adjustment to purchase price on Kensington Merger

For U.S. GAAP purposes, the tax benefit resulting from the write-off of exploration expenditures pursuant to U.S. GAAP has been reduced by a valuation allowance. Since the acquisition of Kensington will allow the benefit of the tax asset to be realized, the valuation allowance is reduced and the mining interests were adjusted in the purchase equation.

iii) Equity loss

Under Canadian GAAP, the Company has accounted for its interest in Wescan Goldfields Inc. ("Wescan") on an equity basis. For U.S. GAAP purposes, Wescan would be required to expense all exploration expenditures related to unproven mineral properties as incurred. This adjustment would increase the Company's share of Wescan losses under U.S. GAAP.

iv) Flow-through share premiums

Under U.S. GAAP, the difference between the issue price of flow-through shares and the fair value of the shares at the date of issuance is recorded as a liability with a corresponding reduction to share capital. To the extent that the Company has available tax pools for which a full valuation allowance has been provided, the premiums are recognized in earnings as a reduction in the valuation allowance at the time of renunciation of the tax pools.

v) Stock-based compensation

Statement of Financial Accounting Standards ("FAS") No. 123, Accounting for Stock-based Compensation establishes financial accounting and reporting standards for stock-based employee compensation plans. This statement defines a fair-value based method of accounting for employee stock options, but also allows an entity to measure compensation costs related to stock-based compensation plans using the intrinsic value method with pro-forma disclosure of the impact of using the fair-value method. The latter application was allowed under Canadian GAAP prior to January 1, 2004 after which the Company adopted the fair-value method of accounting for employee compensation plans under Canadian GAAP. Pursuant to the transitional rules, a company that adopted this accounting treatment effective January 1, 2004 may retroactively adopt this standard without restatement of prior periods back to January 1, 2002. The effect of the change in policy on the balance sheet at January 1, 2004 was to increase the Company's deficit by \$841,000.

For U.S. GAAP purposes the Company applied the modified prospective method of adopting FAS No. 123 as permitted by FAS No. 148 Accounting for Stock Based Compensation - Transition and Disclosure and Amendment FAS 123, as of January 1, 2004. Since the Company's options vested in the year of option grant there was no impact on 2004 earnings (loss) for options granted prior to 2004 and therefore, the stock compensation expense for 2003 and 2002 recorded under Canadian GAAP to opening deficit is reversed.

vi) New accounting pronouncements

In December, 2004, FAS No. 123 (revised), "Share-Based Payment", was issued. This statement requires an entity to recognize the grant date fair value of stock options and other equity-based compensation issued to employees. In the income statement, FAS No. 123 (revised) eliminates the ability to account for share-based compensation transactions using the intrinsic value method in APB No. 25. The Company will adopt FAS No. 123 (revised) in 2006 in accordance with the appropriate transition options and adoption period prescribed in the statement. The Company does not expect that the adoption of this standard will have a material impact on the consolidated financial statements.

In December, 2004 the FASB issued FAS. No. 153, "Exchanges on Non-monetary Assets, an amendment of APB Opinion 29". This statement amends Opinion 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The Statement is effective for fiscal periods beginning after June 15, 2005. Management does not expect the adoption of this Statement to have a material effect on the Company's consolidated financial position and results of operations.

In May, 2005, the FASB issued FAS No. 154, "Accounting Changes and Error Corrections, a Replacement of APB Opinion No. 20 and FAS No. 3". FAS No. 154 requires retrospective application of changes in accounting principle to prior periods' financial statements, rather than the use of the cumulative effect of a change in accounting principle, unless impracticable. If impracticable to determine the impact on prior periods, then the new accounting principle should be applied to the balances of assets and liabilities as the beginning of the earliest period for which retrospective application is practicable, with a corresponding adjustment to equity, unless impracticable for all periods presented, in which case prospective treatment would be applied. FAS No. 154 applies to all voluntary changes in accounting principle as well as those required by the issuance of new accounting pronouncements if no specific transition guidance is provided. FAS No. 154 does not change the previously issued guidance for reporting a change in accounting estimate or correction of an error. FAS No. 154 becomes effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect this policy to have a material impact on the consolidated financial statements. The Company will adopt FAS No. 154 on January 1, 2006.

DIRECTORS & OFFICERS



KENNETH E. MACNEILL
PRESIDENT, CEO
& DIRECTOR

HARVEY J. BAY
CHIEF OPERATING OFFICER,
CHIEF FINANCIAL OFFICER
& DIRECTOR



JAMES R. ROTHWELL
NON-EXECUTIVE CHAIRMAN



ROBERT A. MCCALLUM
DIRECTOR



ARNIE E. HILLIER
DIRECTOR



A. NEIL McMILLAN
DIRECTOR



RONALD G. WALKER
DIRECTOR



WILLIAM E. STANLEY
DIRECTOR



GEORGE H. READ
SENIOR VICE-PRESIDENT
OF EXPLORATION
& DEVELOPMENT



PIETER I. DU PLESSIS
VICE-PRESIDENT
OF EXPLORATION



GARNET M. SCHULHAUSER
CORPORATE SECRETARY

CORPORATE INFORMATION

EXCHANGE LISTING
TSX

TRADING SYMBOL
SGF

AUDITORS
KPMG LLP
SASKATOON, SASKATCHEWAN

SOLICITORS
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THE ANNUAL GENERAL AND SPECIAL MEETING OF THE SHAREHOLDERS OF SHORE GOLD INC. WILL BE HELD IN SASKATOON
AT THE SHERATON CAVALIER HOTEL IN THE CENTRE ROOM AT 10:00A.M. ON THURSDAY, JUNE 15TH, 2006.
SHAREHOLDERS ARE ENCOURAGED TO ATTEND.



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